



Public Utilities Commission

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March 31, 2022

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

RE: *In the Matter of the Application of Ohio Power Company to update its gridSMART Phase 2 Rider rates*, Case No. 20-939-EL-RDR.

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations regarding the application filed by Ohio Power Company to update its gridSMART Phase 2 Rider rates in Case No. 20-939-EL-RDR.

A handwritten signature in black ink, appearing to be "DM", written in a stylized, cursive-like font.

Devin Mackey
Supervisor, Grid Modernization & Retail Markets
Public Utilities Commission of Ohio

Enclosure
Cc: Parties of Record

Ohio Power Company (AEP Ohio)
Case No. 20-939-EL-RDR
gridSMART Phase 2 Rider

SUMMARY

On January 29, 2021, Ohio Power Company (“AEP Ohio” or “the Company”) filed an update to the gridSMART Phase 2 Rider in Case No. 20-939-EL-RDR for the fourth quarter of the 2020 calendar year. The Staff of the Public Utilities Commission of Ohio (“Staff”) used the data made available in this filing to conduct a financial audit of all costs incurred during the 2020 calendar year. As part of the audit, Staff reviewed revenues, operation and maintenance (O&M) expenses, and capital assets added throughout the calendar year and conducted field audits to confirm asset costs were associated with plant actually in service.

CASE HISTORY

In Case No. 08-917-EL-SSO, the Commission authorized the creation of the gridSMART Rider along with Phase 1 of the Company’s gridSMART project, which was designed as a three-year pilot program.¹ Then, in Case No. 11-346-EL-SSO, the Commission authorized the expansion of the gridSMART project, subject to approval of a separate “Phase 2” application, and the creation of a separate gridSMART Phase 2 Rider to track project costs. In the same case, the Commission approved the Company’s request to transfer the remaining capital costs associated with gridSMART Phase 1 for recovery through the Distribution Investment Rider (DIR), along with recovery of any unrecovered O&M expenses through the gridSMART Phase 2 Rider.²

In Case No. 13-1939-EL-RDR, the Commission approved a Stipulation and Recommendation (Stipulation) for the Company’s gridSMART Phase 2 program. The Phase 2 expansion included the deployment of Advanced Metering Infrastructure (AMI) for approximately 894,000 customers, Distribution Automation Circuit Reconfirmation (DACR) for approximately 250 circuits, and Volt/VAR Optimization (VVO) for 160 circuits, which was an increase from the Company’s originally proposed 80 circuits in the application.

To recover gridSMART Phase 2 costs through the gridSMART Phase 2 Rider, the Company was instructed to establish a docket for each calendar year and to file quarterly filings to reflect the costs incurred, which would be subject to automatic approval within 30 days, unless otherwise determined by the Commission. The same docket would be used for the annual physical and financial audits, which was established in Phase 1 and extended into Phase 2. The Company was also required to report annually on the non-financial metrics included as an attachment to the Stipulation for six years.³

Finally, the Stipulation established an operational savings credit to the gridSMART Phase 2 Rider to reflect the reduced O&M expenses and increased revenues associated with the implementation of the project components. The operational savings credit was initially set to \$400,000/quarter, but subject to formal evaluation by an external consultant.

That formal evaluation was conducted as part of a request for proposals issued in Case No. 18-1618-EL-RDR. The Commission ultimately approved a Stipulation and Recommendation in the case that

¹ Case No. 08-917-EL-SSO, March 18, 2009 Opinion and Order at 37-38 and the July 23, 2009 Opinion and Order at 18-24.

² Case No. 13-2385-EL-SSO, February 25, 2015 Opinion and Order at 51-52.

³ Case No. 13-1939-EL-RDR, February 1, 2017 Opinion and Order.

established an increased level of operational savings credit. “Subject to the terms of the settlement, the increased annualized level of operational savings credit to be applied against the gridSMART Phase 2 Rider will be \$1.858 million for July-December 2019 less any credits provided during that period at the time the new 2019 credit is implemented, \$8.230 million in 2020, and \$8.396 million in 2021.” The Stipulation also expanded the data included as part of the non-financial metrics and extended the reporting obligation through 2024.⁴

STAFF REVIEW AND RECOMMENDATIONS

This audit was based on annual 2020 data submitted by AEP Ohio in its quarterly gridSMART Phase 2 Rider. This quarterly filing was updated to include actual gridSMART Phase 2 O&M spending and capital carrying charges from October through December 2020. Also included in this Rider are the capital carrying charges associated with the additional 22,000 AMI meters from gridSMART Phase 1, in accordance with the Commission’s Order on February 1, 2017, in Case No. 13-1939-EL-RDR.

The revenue requirement reflects the updated operational savings credit authorized in Case No. 18-1618-EL-RDR, as discussed above. The filing also includes the updated non-financial metrics associated with the gridSMART Phase 2 project.

In its review, Staff examined the as-filed schedules for consistency with the Commission Orders that address the gridSMART Phase 2 Rider and to ensure proper accounting and regulatory treatment was applied. The audit consisted of a review of the application and its supporting work papers to confirm the prudence of expenses incurred during the review period and the mathematical accuracy of the schedules included in the application. Staff conducted this audit through a combination of field audits, document reviews, interviews and interrogatories.

While performing its audit, Staff discovered expenses associated with a catered breakfast and beverages for a collaborative meeting that were charged to the gridSMART rider. Therefore, Staff recommends an adjustment to remove \$269.47 in food and beverage expenses from the Company’s O&M expenses.

During its investigation, Staff discovered expenses related to incentive pay, stock-based compensation, and restricted stock units that were linked to the financial performance of the Company or were not related to distribution service. Consistent with past practices, Staff does not support the recovery of financial incentives⁵ based upon a utility company’s financial goals, because it passes the recovery of the company’s investor financial goals on to its customers. The Commission has agreed with Staff’s position to remove these costs from recovery.⁶ Staff therefore recommends an adjustment to remove \$45,412 from O&M expenses, which is comprised of \$38,586 for incentives, \$5,009 for stock-based compensation, and \$1,817 for restricted stock units. In addition, Staff recommends an adjustment to remove \$167,086 in capital costs related to employee financial incentives, as derived from information provided in Data Requests 18 and 21.

During its review of AMI meters booked to the gridSMART rider, Staff discovered that all meters installed during the test year were held in inventory for greater than three months before being installed. However, Staff also found that the number of gridSMART AMI meters installed during the test year was minimal, as over 95% of AMI meters in the gridSMART program had already been installed prior to the

⁴ Case No. 18-1618-EL-RDR, November 21, 2019 Opinion and Order at 7-11.

⁵ Financial incentives include, but may not be limited to: performance awards, restricted stock units, executive incentives, earnings per share, shareholder returns, stock purchases, company earnings, and/or any other financially motivated incentives tied to the company’s bottom line and/or meeting shareholder interests.

⁶ Case No. 16-664-EL-RDR, Finding and Order at 6 (May 15, 2019).

test year period. In addition, many of the meters installed over the test year period were for customers who offered only limited access to their properties or who were difficult for the Company to contact. Because of the small quantity of meters that were needed for the end of the program, Staff has decided not to make an adjustment for the meters that were in inventory longer than three months.

During its review, Staff discovered that the Company has been recovering AMI meters in the gridSMART rider that are outside of the scope approved by the Commission. As stated above, the Commission approved in Case No. 13-1939-EL-RDR the recovery of approximately 894,000 additional AMI meters through the gridSMART Phase 2 program. As of 11/2020, AEP had already booked over 929,000 AMI meters as part of the Phase 2 program. However, as of 11/2020, AEP was recovering an additional 73,858 AMI meters which were not tagged to any gridSMART program in this rider. Staff finds that these additional meters are not appropriate to be recovered in the gridSMART rider and are more appropriate to be recovered in the DIR rider, since the gridSMART rider was approved to only recover assets specific to that program. Therefore, Staff recommends that \$5,723,662 in non-Grid Smart AMI meters and associated expenses added during the test year should be disallowed from the gridSMART rider.

The total impact of Staff's adjustments on the gridSMART Phase 2 Fourth Quarter 2020 revenue requirement, as filed, is a reduction of \$423,024.

**This foregoing document was electronically filed with the Public Utilities
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in

Case No(s). 20-0939-EL-RDR

Summary: Staff Review and Recommendation of the 2020 AEP gridSMART Phase
2 Rider electronically filed by Mr. Devin C. Mackey on behalf of PUCO